

CIRCULAR NO. A-76
Revised Supplemental Handbook

**PERFORMANCE OF COMMERCIAL
ACTIVITIES**



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

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Introduction

The August 1983 Office of Management and Budget (OMB) Circular No. A-76, *“Performance of Commercial Activities,”* establishes Federal policy for the performance of recurring commercial activities. This Supplement replaces the Handbook issued with the 1983 Circular and provides updated guidance and procedures for determining whether recurring commercial activities should be operated under contract with commercial sources, in-house using Government facilities and personnel, or through interservice support agreements (ISSAs). The Revised Supplemental Handbook is an integral part of the 1983 Circular.

As noted in the Vice President’s Third Report of the National Performance Review, *“Common Sense Government: Works Better and Costs Less,”* (September 1995), Americans want to “get their money’s worth” and want a Government that is more businesslike and better managed. The reinvention of Government begins by focusing on core mission competencies and service requirements. Thus, the reinvention process must consider a wide range of options, including: the consolidation, restructuring or reengineering of activities, privatization options, make or buy decisions, the adoption of better business management practices, the development of joint ventures with the private sector, asset sales, the possible devolution of activities to State and local governments and the termination of obsolete services or programs. In the context of this larger reinvention effort, the scope of this Supplemental Handbook is limited to the conversion of recurring commercial activities to or from in-house, contract or ISSA performance. Circular A-76 is not designed to simply contract out. Rather, it is designed to: (1) balance the interests of the parties to a make or buy cost comparison, (2) provide a level playing field between public and private offerors to a competition, and (3) encourage competition and choice in the management and performance of commercial activities. It is designed to empower Federal managers to make sound and justifiable business decisions.

Reliable cost and performance information is crucial to the effective management of Government operations and to the conduct of competitions between public or private sector offerors. Unfortunately, this

information has not been generally available and has often been found to be unreliable. The Chief Financial Officers Act of 1990 (CFO Act) includes among the functions of chief financial officers “the development and reporting of cost information” and “the systematic measurement of performance.” This includes performance by in-house, contract or ISSA resources. In July 1993, Congress passed the Government Performance and Results Act (GPRA), which mandates performance measurement by Federal agencies. The Statement of Federal Financial Accounting Concepts No. 1, *“Objectives of Federal Financial Reporting (1993),”* stated that one of the objectives of Federal financial reporting is to provide useful information to assist in assessing the budget integrity, operating performance, stewardship, and control of the Federal Government. In 1995, the Federal Accounting Standards Advisory Board (FASAB) recommended standards for managerial cost accounting, which were approved by the Director of OMB, the Secretary of the Treasury and the Comptroller General. These standards were issued as the Statement of Federal Accounting Standards No. 4, *“Managerial Cost Accounting Standards for the Federal Government.”* This Supplement relies on the managerial cost accounting and performance standards established in support of the CFO Act, GPRA, and the Federal Accounting Standards, as they are developed and implemented. Cost and performance information developed for cost comparisons required by the Circular and this Supplement should be drawn from the data base established by these standards and adjusted as appropriate.

The Circular and this Supplement are not intended and should not be construed to create any right or benefit, substantive or procedural, enforceable at law by a party against the United States, its agencies, its officers or any person. It should not be construed to create any substantive or procedural basis on which to challenge any agency action or inaction, except as set forth in Part I, Chapter 3, Paragraph K, of this Supplement and as set forth in Appendix 2, Paragraph G, consistent with Section 3 of the Federal Activities Inventory Reform Act of 1998 (FAIR Act, P.L. 105-270).

This Supplement is divided into two parts (with a table of contents at the beginning of each Part) as follows:

Part I *Policy Implementation*

Sets forth the principles and procedures for implementing OMB Circular A-76.

Part II *Preparing the Cost Comparison Estimates*

Provides instructions for calculating the financial advantage to the Government of acquiring a product or service through in-house, contract or interservice support agreement resources.

Appendices

Definition of Terms

Defines terms within the context of OMB Circular A-76.

Commercial Activities Inventory

Provides information and reporting guidance.

Useful Life and Disposal Values

Provides useful expected life and disposal values for equipment.

Tax Tables

Provides Federal tax rate tables for use in A-76 cost comparisons by industry type.

OFPP Policy Letter 92-1

Provides guidance and criteria for determining whether activities may be considered inherently governmental and not subject to the requirements of the Circular or this Supplement.

Aviation/Motor Vehicle

Provides sector-specific alternatives to the cost comparison methodologies in Part II.